GOVERNMENT OF INDIA
DISINVESTMENT
LOK SABHA

UNSTARRED QUESTION NO:1296
ANSWERED ON:26.02.2003
SALE OF PROFIT MAKING PSUS
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Will the Minister of DISINVESTMENT be pleased to state:

(a) whether corporate India is opposed to the strategic sale of profit making public sector "Navaratanas";

(b) if so, whether the president of FICCI has suggested for conversion of profit making public sector undertakings into autonomous corporation run by professional management;

(c) if so, the reaction of the Government thereto;

(d) whether the value of assets of these undertakings cannot be scientifically evaluated or estimated; and

(e) if so, the Government's reaction in this regard?

Answer

MINISTER OF COMMUNICATIONS AND INFORMATION TECHNOLOGY AND MINISTER OF DISINVESTMENT (SHF SHOURIE)

(a)&(b) No, Sir. However, the President of the Federation of Indian Chambers of Commerce and Industry has suggested that:

• Government should emulate the UK model of privatisation programme, wherein most of the bigger British PSUs were offered to the public rather than to the individual strategic owners.

• Disinvestment should be done through IPO route and Government could think of placing shares in the New York Stock Exchange and a good portion in the domestic market with some reservation for employees.

• PSUs can well become board managed companies which should be able to function independently as professionally managed commercial entities.

• The real worth of the PSUs does not come out in auctions or valuations by the merchant bankers.

(c) The policy on disinvestment has evolved over time keeping in view national interest. Emulating the example of any other country, as has been suggested, is not desirable as the objective conditions may be very different. Experience shows that the sales realisation is maximised in the case of strategic sale as the private investor pays a premium for the transfer of management control. If the Government sells its majority shares through a public offer there will always be the possibility that a private investor may acquire the company cheaply, through "creeping acquisition", or the purchase of shares in small lots form the public, without paying a control premium. It also needs to be kept in mind that the majority of PSUs are not listed, even in the domestic stock exchanges, and considerable effort and time would need to be spent to bring them to a state of preparedness for listing prior to public offer. A disinvestment strategic relying on public offer of shares must also be viewed in the context of the size, depth and level of integration of the domestic capital market with the international capital markets. Keeping these factors in view, the Government has adopted a flexible disinvestment strategy, which adopts both strategic sale and public offer of shares in the domestic and international market, as is appropriate, on a case by case basis.
(d)&(e) In keeping with the best market practices, the four methodologies namely Discounted Cash Flow Method, Balance Sheet Method, Transaction Multiple Method and Asset Valuation Method are used for the valuation of PSUs.These valuation methodologies are internationally recognised. On the basis of the results obtained using these four separate valuation methodologies, the reserve price is determined. The actual sale price, however, is determined through a process of competitive bidding, which allows the market determined valuation, at that point of time, to be revealed.